Yukon Economic Outlook

October 2015

Yukon
Economic Development

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ECONOMIC FORECASTING AND RISK

This forecast examines near-term expectations for Yukon's economy, focusing on the anticipated performance of key economic indicators and sectors.

Like all forecasts, the results are dependent on the information available at the time the forecast is completed and the key assumptions incorporated in the forecast. Careful consideration was taken when developing the key assumptions for the current forecast, such as the level and timing of mining development activity, estimates of annual mineral production and the amount of construction spending. Even with best efforts to include appropriate assumptions there is a degree of risk and uncertainty associated with the assumptions and ultimately the forecast results. Key examples of potential risks to the forecast are noted below:

- Global Economic Performance – The performance of Yukon's economy is tied to the performance of other key economies, such as the U.S. and China, and to the global economy as a whole. Demand for Yukon goods and services, including minerals and local tourism activities, can depend very much on what is happening outside of the territory.

- Metal Prices – Metal prices are a key determinant of mining activity (exploration, development and production) and are determined on the global market. Projections from a variety of forecasters were considered in preparing this forecast.

- Energy Prices – Energy prices are also determined on the world market. For Yukon, the price of oil can influence economic activity particularly in how it can impact mining sector activity (fuel for project operations and equipment) as well as impact tourism activities (fuel for travelers' vehicles). The price of fuel also influences the cost of Yukon construction and also the cost of goods in Yukon as the majority of goods purchased locally are transported from outside the territory.

- Exchange Rates – The value of the Canadian dollar versus other currencies can impact spending decisions by tourists and also investment decisions by resource-based companies, such as those that export minerals. A strengthening or weakening dollar may affect this forecast.

- Interest Rates – A potential threat to economic growth in Yukon, and in Canada as a whole, is a significant increase in interest rates. The cost of borrowing in Canada has been very low for a prolonged period, with the Bank of Canada's daily overnight target for the bank rate not exceeding 1.0 per cent since January 19, 2009. This forecast assumes that interest rates will remain relatively low for the foreseeable future.

Circumstances that impact the assumptions of a forecast can change quickly, and forecasts can become dated. Yukon is a prime example of a small economy that can be rapidly influenced by outside events. Information in this forecast is current to October 9, 2015.

HIGHLIGHTS FOR 2014

- Preliminary estimates from Statistics Canada indicate that Yukon's real Gross Domestic Product (GDP) contracted for a second consecutive year, down by 1.2 per cent in 2014 to $2.183 billion.
    - The primary contributor to the contraction was an annual decline in mineral production, the result of weak mineral prices and an ongoing slowdown in the global mining industry.
- Yukon's June 2014 population of 37,251 was 1.7 per cent higher than the June 2013 figure of 36,634, marking the 11th consecutive year of growth.
- Another strong year for Yukon's labour force:
    - Total employment averaged 19,800, up 500 from 2013.
    - The labour force averaged 20,700, up 300 from 2013.
    - The unemployment rate averaged 4.3 per cent, down from 5.4 per cent in 2013.
- Retail sales increased to $660.9 million, up 1.3 per cent from 2013.
- Border crossings fell by 2.4 per cent, to 341,707.
    - Total visitation, as measured by the Department of Tourism's Yukon Visitor Tracking Program, was estimated at 443,300, down 2.2 per cent from 453,200 in 2013.
- At $130.5 million, the value of building permits in 2014 was up from $78.9 million in 2013.
    - Permit value increased in all areas, with significant increases noted in government/institutional permits and commercial permits.
- Modest increase in the Consumer Price Index (CPI) was experienced in Whitehorse, up 1.3 per cent in 2014.

FORECAST FOR 2015

- Real GDP is expected to contract for the third consecutive year, decreasing by about six per cent.
    - A significant decline in mineral production is the biggest contributor to the contraction.
- Modest population growth is expected, with gains of 0.6 per cent in 2015.
- A weaker economy to negatively impact the performance of Yukon's labour market.
    - Employment is expected to decline in 2015, contributing to an increase in the unemployment rate to 6.7 per cent.
- Retail sales are expected to fall to $644 million, down from about $661 million in 2014.
- Border crossings are expected to grow about 1.5 per cent to 347,000.
- A record Government of Yukon capital budget is expected to contribute to gains in total value of building permits, increasing to $135 million.
- Overall price deflation in 2015, with the Whitehorse CPI down by 0.6 per cent.

FORECAST FOR 2016

- The forecast for real GDP in 2016 is for a return to growth (3.5 per cent).
  - Growth in 2016 is primarily related to an expected increase in mineral production at the Minto mine with the beginning of stripping of the Minto North pit.
- Population growth of 1.0 per cent to bring the annual population figure to over 37,800.
- Employment is expected to decline slightly to 19,300, while the labour force is expected to increase slightly to 20,900. The unemployment rate in 2016 is expected to rise to 7.5 per cent.
- Retail sales are expected to return to the 2014 level, growing to $662 million.
- Continued growth in border crossings, increasing to over 352,000.
- Building permit value is expected to be similar to the 2015 level.
- Following deflation in 2015, the Whitehorse CPI is expected to grow by 2.2 per cent in 2016.

GLOBAL, U.S. AND CANADIAN OUTLOOK

The October 2015 *World Economic Outlook* prepared by the International Monetary Fund (IMF) notes that preliminary data for the first half of 2015 has global growth at 2.9 per cent, about 0.3 percentage points weaker than IMF's April forecast.[1]

The IMF is now forecasting global growth of 3.1 per cent for 2015 as a whole, slightly lower than in 2014, and below the IMF's July 2015 forecast of 3.3 per cent. Looking to 2016, the IMF is projecting stronger global growth of 3.6 per cent, down from a forecast of 3.8 per cent in July 2015.

The October Outlook notes that growth prospects across countries and regions remain uneven. Relative to last year, the recovery in advanced economies is expected to pick up slightly, while activity in emerging market and developing economies is projected to slow for the fifth year in a row, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.[2]

While overall, growth rates for emerging market and developing economies are expected to continue to exceed those of advanced economies in the near-term, there is more downside risk associated with expectations for emerging markets, and the gap in growth rates between advanced economies such as the United States and the euro area continues to close.

Emerging market and developing economies registered growth of 4.6 per cent in 2014 and are forecast to grow by 4.0 per cent and 4.5 per cent in 2015 and 2016, respectively. China and India will continue to lead the way for emerging market countries. Following estimated growth of 7.3 per cent in 2014, China's economy is expected to grow 6.8 per cent and 6.3 per cent over the next two years. Following growth of 7.3 per cent in 2014, India is forecast to post gains of 7.3 per cent in 2015 before growth of 7.5 per cent in 2016.

Following estimated growth of 1.8 per cent in 2014, advanced economies are forecast to grow by 2.0 per cent in 2015 and 2.2 per cent in 2016. U.S. growth is expected to remain the primary driver of growth in advanced economies with U.S. growth rates in both 2015 and 2016 exceeding the overall growth rates of advanced economies.

As was the case in 2014, record snowfalls and unseasonably cold weather hampered U.S. economic activity early in 2015. Estimates have real GDP for the United States contracting by an annualized rate of 0.6 per cent in the first quarter of 2015.[3] While down, the estimated decline was lower than what many forecasters were expecting. Also like 2014, weak first quarter performance was followed by strong gains with estimated GDP growth of 3.7 per cent in the second quarter of 2015.[4] Performance is expected to remain strong in the remainder of 2015, with higher wages and an improving labour market expected to contribute to higher consumer spending. The IMF is forecasting that growth of 2.4 per cent in 2014 will be followed up by gains of 2.6 per cent in 2015 and 2.8 per cent in 2016.

The persistence of low resource prices, particularly for oil, greatly impacted Canada's economic performance in the first half of 2015. Following a 0.2 per cent decline in real GDP in the first quarter of 2015, the first contraction since 2011, a further 0.1 per cent contraction was noted in the second quarter.

Low oil prices and weak mineral prices are expected to continue to weigh on Canadian exports and business investment. Following growth of 2.4 per cent in 2014, the latest IMF outlook is calling for growth of 1.0 per cent and 1.7 per cent in 2015 and 2016, respectively. The current IMF forecasts for 2015 and 2016 represent significant downgrades from the July forecasts of 1.5 per cent for 2015 and 2.1 per cent for 2016.

The Bank of Canada is also forecasting weak economic growth for Canada in 2015 with stronger gains in 2016. The July 2015 *Monetary Policy Report* noted real GDP growth forecasts of just over one per cent for 2015 and about two and half per cent for 2016.[5] The July report noted that the Canadian economy stalled in the first quarter of 2015, due to falling and weaker oil prices. The Bank of Canada has indicated that it views the oil price shock as front-loaded and that it expected Canadian growth prospects to improve over the remainder of 2015.

As noted, weaker resource prices negatively impacted Canada's economic performance in the first half of 2015. Resource extraction activities continue to be a significant contributor to Canada's economy, and growth prospects for the country are inherently linked to the performance of commodity prices. The weakness in mineral prices that began in 2014 has continued into 2015 with key commodities such as gold, silver and copper reaching lows not seen in five to six years. Concerns about global demand, especially declining demand from China, as well as increases in supply that followed the most recent mining investment boom, continue to contribute to uncertainty about a recovery in mineral prices.

After increasing in the spring from their January trough, oil prices have declined sharply, reflecting resilient supply, the prospects of higher output following the nuclear deal with the Islamic Republic of Iran, and weaker global demand.[6] Oil and natural gas prices are expected to remain weak in the near-term. Part of the downward pressure on oil prices has been coming from high U.S. commercial crude oil inventories which have been increasing in recent years and at near record levels during parts of 2015. Uncertain Chinese growth also hangs over the outlook for oil prices in the near-term. TD Economics' August 2015 Commodity Price Report

notes an expectation of increasing oil prices in the second half of 2015, but notes that prices are unlikely to get back above the US$60 per barrel mark until 2016.[7]

After posting the highest annual average since 2010 in 2014, natural gas prices are expected to fall well below levels recorded last year. Higher inventories are putting downward pressure on natural gas prices in 2015. The August Commodity Price Report from TD Economics has natural gas prices averaging below US$3.00 in 2015, down over 30 per cent from 2014. Prices are expected to increase to over US$3.00 in 2016, but remain below the level noted in 2014.[8]

Future growth prospects for Canada are also tied to interest rates. After being pegged at 1.0 per cent since September 2010, the Bank of Canada surprised most analysts in January 2015 when it lowered the overnight rate to 0.75 per cent, and then lowered it further to 0.5 per cent in July 2015. Canadian interest rates are expected to remain low throughout 2015 and into 2016. The Bank of Canada maintained the overnight rate at its September rate announcement citing ongoing adjustments in Canada's resource sector and increasing uncertainty about growth prospects for China and other emerging-market economies.[9] The next interest rate announcement for the Bank of Canada is scheduled for October 21, 2015.

Outlook for Global, U.S. and Canadian Economies

According to the IMF's World Economic Outlook (October 2015):

- Global Growth: 3.1 per cent (2015) and 3.6 per cent (2016);
- U.S. Growth: 2.6 per cent (2015) and 2.8 per cent (2016); and
- Canadian Growth: 1.0 per cent (2015) and 1.7 per cent (2016).

RECENT PERFORMANCE AND SHORT-TERM OUTLOOK

PART A: ECONOMIC INDICATORS

GROSS DOMESTIC PRODUCT (GDP)

Preliminary data released by Statistics Canada in April 2015 estimates that Yukon's real GDP declined by 1.2 per cent in 2014, representing the second consecutive year of contraction.

Among the provinces and territories, only Yukon and Newfoundland and Labrador (-2.9 per cent) are estimated to have experienced a contraction in real GDP in 2014. Prior to 2013, Yukon's real GDP had posted nine straight years of growth.

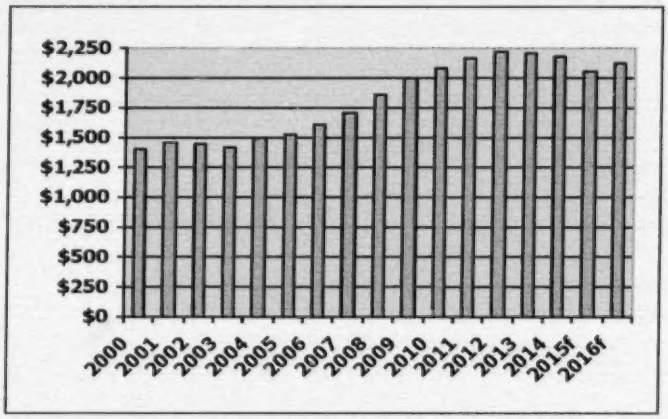


Figure 1 – Real GDP by Industry (2007$ millions)
Source: Department of Economic Development; Statistics Canada

Figure 3 illustrates the notable increase in the contribution of mining related activities over the last decade. While remaining a significant contributor to Yukon's economy, at 18 per cent of total real GDP in 2014 (preliminary data), GDP from mining, quarrying and oil & gas extraction was down from an estimated contribution of over 19 per cent in 2013. Lower mineral production was the primary contributor to the decline in the contribution of mining activities in 2014.

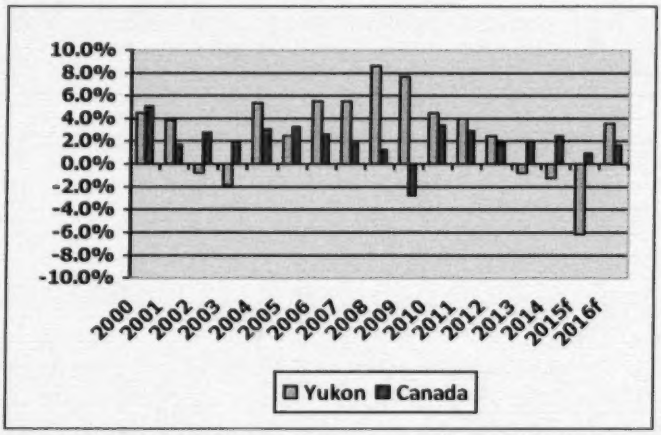


Figure 2 – Real GDP by Expenditure – Annual Growth Rate
Source: Department of Economic Development; Statistics Canada; International Monetary Fund

The current outlook is for a further contraction of Yukon's real GDP in 2015. Weakness related to the mining sector will once again weigh on Yukon's economy, with a substantial decline in mineral production expected in 2015. Suspension of production from the Wolverine mine in January 2015 and the strong likelihood that Bellekeno mine production will not resume this year are impacting the 2015 mineral production forecast. The loss of production from the Wolverine mine is ultimately the largest contributor to the downgrade in the production forecast in 2015. While there is some upside risk to the 2015 forecast related to

capital spending and the performance of the tourism sector, expectations are for Yukon's real GDP to fall by about six per cent to $2.05 billion in 2015.

A return to growth is expected in 2016, with growth stemming predominantly from expectations of increased mineral production. With the inclusion of production from its Minto North pit, Minto production is expected to see considerable gains next year.

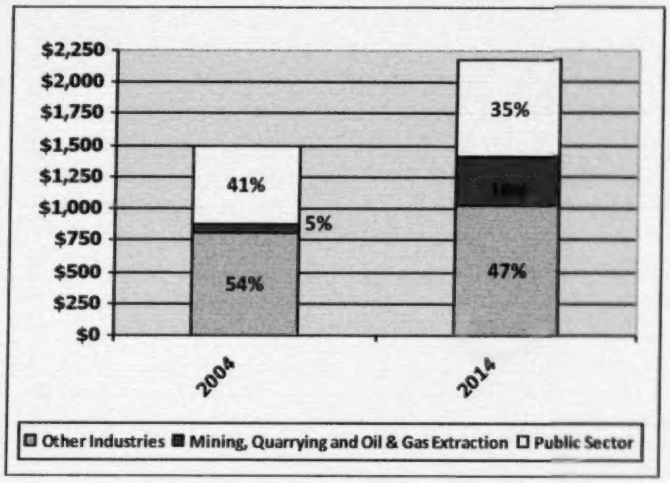


Figure 3 – Real *GDP* by Industry
Source: Department of Economic Development; Statistics Canada

Overall, Yukon's real GDP is forecast to grow 3.5 per cent in 2016. Ultimately, the performance of Yukon's economy is linked to the performance of the global mineral industry, and the performance of mineral prices. If mineral prices remain depressed, Yukon's mining sector could be negatively impacted, which would weigh on Yukon growth prospects for 2016 and beyond.

Outlook for GDP

- Preliminary estimates from Statistics Canada note a decline in Yukon's real GDP of 1.2 per cent in 2014.
- A stronger contraction in real GDP is anticipated in 2015 with a forecasted decline of about six per cent.
- While subject to downward risk related to the performance of mineral prices, growth in mineral production is expected to contribute to real GDP gains in 2016, with growth of 3.5 per cent.

POPULATION

Population is estimated to have grown for the 11th consecutive year in 2014. Average annual population in 2014 was 37,224, the highest annual population ever recorded[10], and up 1.5 per cent from 2013.

Yukon's population as of June 2014 was estimated at 37,251, a record high, and an increase of over 600, or 1.7 per cent, compared to June 2013 (36,634).

The City of Whitehorse – at 28,713 – accounted for over 77 per cent of Yukon's total population in June 2014. Whitehorse population gains have accounted for the majority of overall population growth over the current period of growth, with its role as Yukon's primary goods and services hub a major factor for this recent growth.

Modest population gains are expected in the near-term. The current forecast is for population gains of 0.6 per cent in 2015 and 1.0 per cent in 2016. Continued weakness in the local mining sector, and the Yukon economy in general does present some downside risk to the outlook for continued population gains.

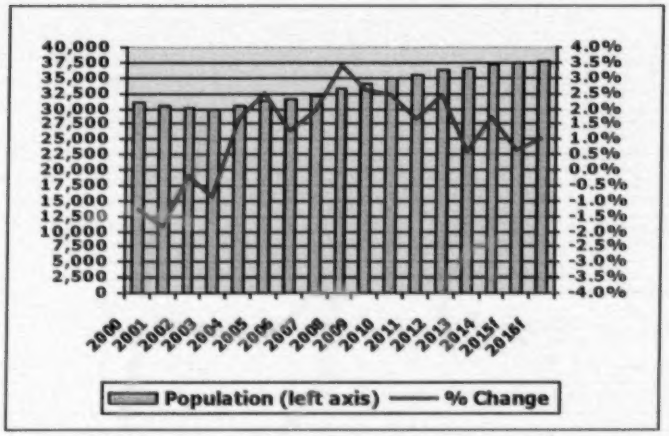


Figure 4 – Yukon Population (June)[1]

Source: Department of Economic Development; Yukon Bureau of Statistics

Outlook for Population

- Following growth of 1.7 per cent in 2014, modest gains are expected in the near-term with growth of 0.6 per cent in 2015 and 1.0 per cent in 2016.

LABOUR MARKET

Yukon's labour market has performed well in recent years, with the size of the labour force and the number of people employed reaching record highs. Gains in employment in Yukon have also translated into relatively low levels of unemployment in recent years with Yukon's unemployment rate amongst the lowest in the country.

Yukon's annual unemployment rate has trended downward over the last 10 years. For the period 2004 to 2014, Yukon's unemployment rate averaged below six per cent, lower than the national average of seven per cent reported for the same period.

Yukon's weaker economic performance in the last couple of years has not been reflected in the performance of key labour market indicators. Monthly data from Statistics Canada's Labour Force Survey for 2014 reported that total employment averaged 19,800 in 2014, up 500 from 19,300 in 2013. Average annual employment in 2014 represented a record high for employment.

Yukon's labour force averaged 20,700 in 2014, up from 20,400 in 2013. While falling short of the record 20,800 reported in 2012, the average annual figure for the labour force in 2014 remained well above the historic average and was indicative of a healthy local labour market.

With employment growth outpacing the growth in labour force, Yukon's average unemployment rate fell to 4.3 per cent in 2014, down from 5.4 per cent in 2013. The 2014 unemployment rate was among the lowest in the country and represents the lowest annual unemployment rate ever recorded for Yukon.

A weaker economic environment has impacted the year-to-date performance of Yukon's labour market. In the first nine months of 2015 employment has averaged 19,422, down 2.6 per cent from 19,944 in the same period of 2014. Yukon's total labour force has also declined year-to-date, averaging 20,711 to September 2015, down 0.6 per cent from the same period of 2014. Weaker employment in the first nine months of 2015 has contributed to a notable increase in Yukon's unemployment rate, increasing from an average of 4.3 per cent in 2014 to 6.4 per cent in 2015.

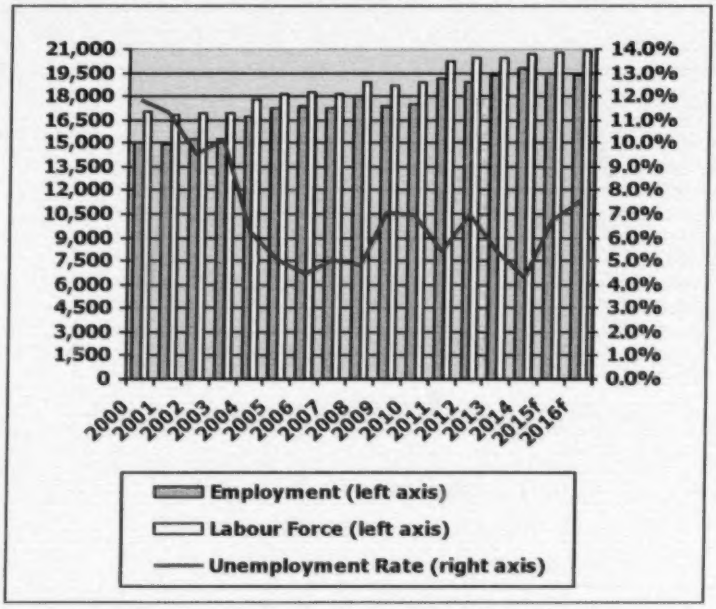


Figure 5 – Key Labour Market Statistics
Source: Department of Economic Development; Statistics Canada

For the entirety of 2015 employment is expected to decline 2.0 per cent to 19,400 with the labour force forecast to note a slight uptick to 20,800. The current forecast now has Yukon's unemployment rate increasing to 6.7 per cent in 2015, up from 4.3 per cent in 2014.

Even with Yukon's GDP expected to grow in 2016, Yukon's labour market is expected to continue to underperform. With much of the GDP growth related to an increase in mineral production from an already operating mine, there is an expectation of little impact on Yukon's labour market. Employment is expected to see a further decline of 0.4 per cent in 2016 and average 19,300, with the average labour force increasing slightly to 20,900. A further increase in the unemployment rate is expected, increasing to 7.5 per cent in 2016.

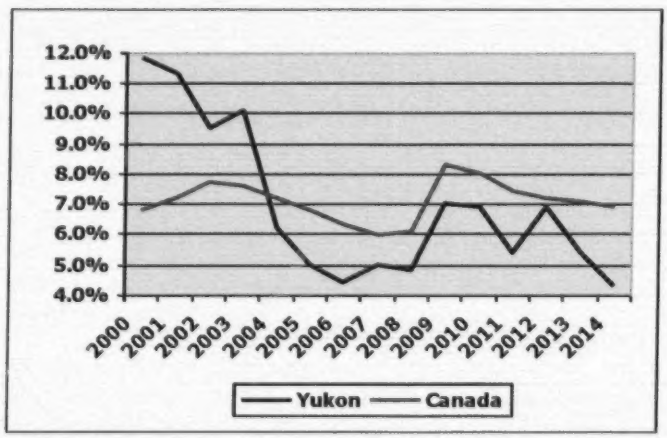


Figure 6 – Unemployment Rate – Yukon vs. Canada
Source: Department of Economic Development; Statistics Canada

Outlook for the Labour Market

- Weaker economic performance is likely to be reflected in near-term performance of the labour market.
  - Annual average employment is expected to decline in both 2015 and 2016.
  - Annual average labour force expected to increase modestly in both 2015 and 2016.
  - Yukon's unemployment rate in 2015 and 2016 is expected to increase, with the average unemployment rate exceeding seven per cent in 2016 for the first time since 2012.

CONSUMER PRICE INDEX

Inflation in Whitehorse, as measured by the change in Whitehorse Consumer Price Index (CPI)[11], has been low in recent years. For the period 2000 to 2014, the annual change in Whitehorse CPI averaged about 1.8 per cent, below the 2.0 per cent in Canada for the same timeframe.

Growth of Whitehorse's CPI in 2014 of 1.3 per cent, was the lowest annual growth rate recorded since 2010, and below the national growth rate of 2.0 per cent for 2014. Lower oil prices created drag on gasoline prices in 2014, with Whitehorse gasoline prices down 0.7 per cent from 2013. Lower gasoline prices also dampened growth of the Transportation component of the Whitehorse CPI, with growth of only 0.9 per cent in 2014.

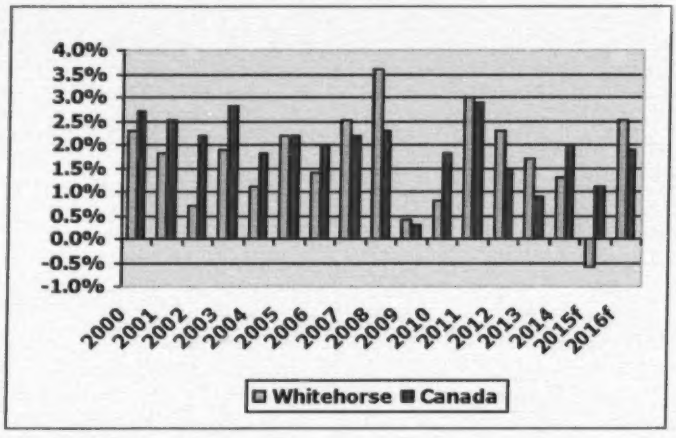


Figure 7 – Change in Consumer Price Index: Whitehorse vs. Canada
Source: Department of Economic Development; Statistics Canada; Bank of Canada[1]

Among other major components of CPI, Recreation and Education and Reading (-2.6 per cent) and Clothing and Footwear (-0.4 per cent) were noted as recording year-over-year declines in 2014.

Notable price increases in 2014 were noted in Food (3.2 per cent), Alcoholic Beverages and Tobacco Products (2.7 per cent) and Shelter (2.6 per cent). Growth of 1.3 per cent in Health and Personal Care matched the overall rate of growth in Yukon's CPI, while estimated growth of 0.7 per cent for Household Operations, Furnishings and Equipment fell below the overall change in the Whitehorse CPI.

Average consumer prices are down on a year-to-date basis with average Whitehorse CPI in the first eight months of 2015 down 0.6 per cent versus the same period of 2014. By comparison, the average Whitehorse CPI in the first eight months of 2014 was 1.7 per cent higher than in the same period of 2013. Lower fuel prices in 2015 are responsible for much of the year-to-date deflation in the overall price level.

Based on the year-to-date deflation and a less than robust outlook for oil prices, average Whitehorse CPI in 2015 is now expected to fall 0.6 per cent. An improved outlook for the local economy and for oil prices should see a return to growth for the Whitehorse CPI in 2016, increasing by 2.2 per cent.

Outlook for CPI

- Following estimated Whitehorse CPI growth of 1.3 per cent for 2014, the Whitehorse CPI is expected to fall by 0.6 per cent in 2015 before growing by 2.2 per cent in 2016.

PART B: ECONOMIC SECTORS

MINING

While mining related activities remain a prominent contributor to Yukon's economy, estimated at 18 per cent of annual preliminary real GDP in 2014 (Figure 3), lower mineral prices and a slowdown in the global mining industry are negatively impacting the performance of Yukon's mining sector.

While Yukon's world-class geology does position the territory favorably for further mineral development, weak mineral prices and an underperforming global mining industry are expected to continue to weigh on Yukon's mining sector in the near-term, creating uncertainty for exploration, development and production prospects.

MINERAL EXPLORATION

Following record expenditures in 2011, mineral exploration and deposit appraisal expenditures[12] declined in both 2012 and 2013. Natural Resources Canada's (NRCAN) latest *Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development Expenditures* estimates that exploration spending grew slightly to $107 million in 2014 with exploration activities related to the Selwyn project accounting for much of the total.

Estimates from the Department of Energy, Mines & Resources (EMR) have exploration expenditures of about $80 million in 2014, up from EMR's estimate of $45 million in 2013. EMR exploration spending estimates are generally lower than NRCAN estimates as the NRCAN spending numbers include such expenditures as related road development and environmental baseline work. The EMR number is more representative of spending on pure exploration work

such as drilling and geochemical. Differences between EMR and NRCAN exploration spending numbers can also occur because the NRCAN numbers are based on a survey completed early in the year while EMR numbers are based on announced company budgets.

Weaker mineral prices and uncertainty related to global demand for mineral resources continue to negatively impact exploration work in the territory. Efforts by mining companies to lower costs and difficulties of junior mining companies to raise capital to finance exploration activities have persisted into 2015 and are likely to continue into 2016. With much of the exploration work undertaken in the territory completed by junior mining companies, the inability of juniors to overcome the financial market's risk aversion is weighing on exploration activities in the territory.

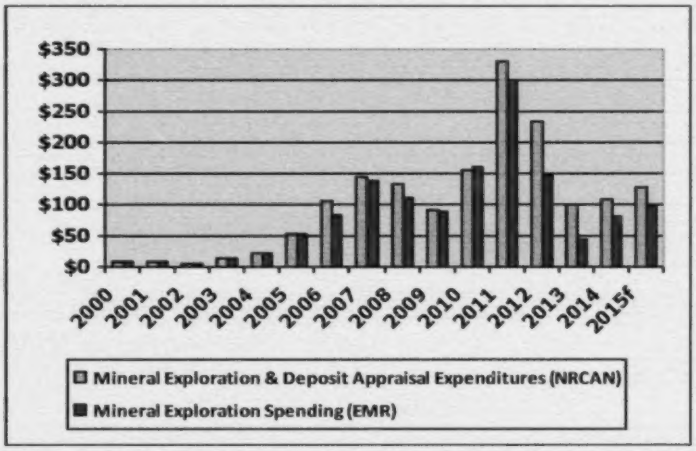


Figure 8 – Mineral Exploration Expenditures ($ millions)
Source: Department of Economic Development; Natural Resources Canada

Even in a difficult investment climate, both NRCAN and EMR are estimating growth in exploration spending in 2015. Results of NRCAN's latest spending survey were released in February 2015 and have exploration expenditures in 2015 growing to over $126 million. EMR is also expecting exploration spending to grow in 2015, with expenditures expected to be near $100 million. For both estimates, spending related to exploration activity on the Selwyn project comprises a substantial portion of the total.

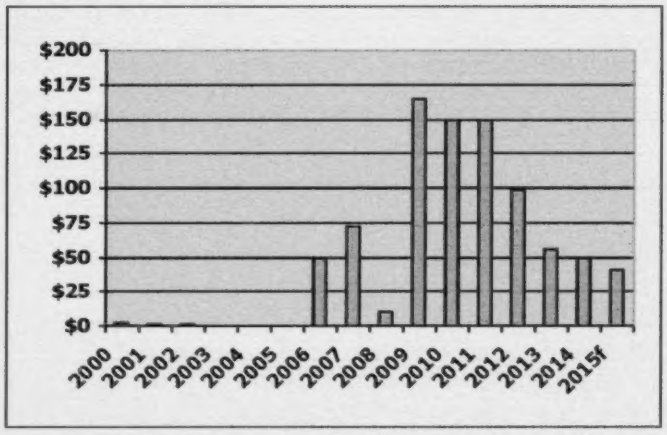


Figure 9 – Mineral Development Expenditures ($ millions)
Source: Department of Economic Development; Department of Energy, Mines & Resources

MINING DEVELOPMENT

Development of the Minto, Bellekeno and Wolverine mines in recent years fuelled a period of high development spending. Development activities related to the Bellekeno and Wolverine mines in particular contributed to high levels of spending from 2010 to 2012.

More recently, development activities have been negatively impacted by lower demand for a number of prominent metals and questions about future demand. Development spending in 2014 was estimated at about $50 million, down from $56 million in 2013. About 60 per cent of the 2014 spending estimate was

associated with expenditures related to the Selwyn project including work on the access road and in-fill drilling. Spending by Capstone Mining Corporation related to the continued expansion of underground mining at the Minto mine accounts for much of the remaining expenditures in 2014.

EMR's development expenditure forecast for 2015 has spending at about $40 million, down from 2014. Spending by Alexco Resources Corporation for development of underground infrastructure at the Flame & Moth deposit, upgrading the mill and other facilities, and re-commissioning the Bellekeno mine is estimated to account for the vast majority of this spending. The remainder of the spending estimate is associated with spending by Capstone Mining Corporation, on pre-stripping at Minto North, which was revised downward by about $10 million in early September due to the delay in accessing the Minto North pit.[13]

MINERAL PRODUCTION

After reaching a recent high of nearly $500 million in 2012, the annual value of mineral production has fallen in the past two years, impacted by the closure of the Bellekeno mine in September 2013 and lower than expected production from the other producing mines. The January announcement of the suspension of operations of the Wolverine mine resulted in a major downward revision for mineral production in 2015. The loss of Wolverine production along with the continued suspension of production at the Bellekeno mine has production in 2015 coming in well below recent annual levels.

The notable decline in mineral production, along with weak mineral prices is anticipated to contribute to a substantial drop in the value of mineral production in 2015. As illustrated in Figure 10, after approaching $500 million just a few years ago, the value of mineral production in 2015 is expected to be about $200 million.

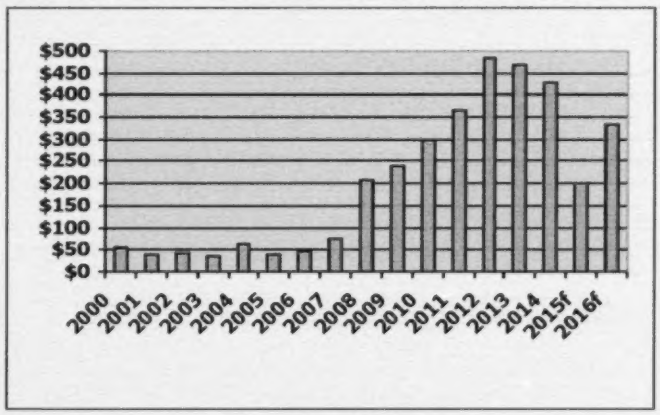


Figure 10 – Value of Mineral Production ($ millions)
Source: Department of Economic Development; Natural Resources Canada

One positive for mineral production in 2015 is that placer gold production is anticipated to continue to be strong. Over the past three years, the value of placer production has averaged near $70 million, making it a significant contributor to Yukon's total value of mining. With lower production from non-placer gold operations expected in 2015, placer gold's relative contribution to Yukon's total mineral value will increase significantly. Placer gold production in 2015 is expected to be similar to the 60,490 crude ounces that were produced in 2014. Over the past five years, 2010 to 2014, placer gold production has averaged over 54,300 crude ounces.

Questions about future demand for minerals and metals, and future price performance, have created considerable uncertainty for Yukon's mining sector, and expectations for 2016 will be accompanied by a high degree of downside risk. Mineral production is anticipated to increase significantly in 2016 with production from the Minto North pit expected to come on stream next year. Minto's silver and gold production is expected to double in 2016 and its copper production

is expected to grow by more than 70 per cent. While remaining below recent annual highs, the value of mineral production in 2016 is expected to grow by almost 70 per cent to well over $300 million.

Outlook for Mining

- While remaining below recent record highs, exploration spending is forecast to increase for a second consecutive year in 2015.
- Development expenditures in 2015 are expected to be about $40 million, down from approximately $50 million in 2014.
- The suspension of operations at the Wolverine mine will contribute to a substantial decline in the value of mineral production in 2015. Increased Minto production is expected to contribute to gains in the value of mineral production in 2016.

OIL & GAS

Yukon is home to significant hydrocarbon resources, both onshore and offshore. Yukon's onshore sedimentary basins contain an estimated 14.77 trillion cubic feet (Tcf) of conventional natural gas and 663 million barrels (MMbbls) of conventional oil. Offshore conventional resources in the Beaufort Sea include an additional estimated 40 Tcf of natural gas and 4,500 MMbbls of oil. Yukon also has the potential to host significant unconventional oil and gas, though formal assessments have yet to be completed.

Recent interest in Yukon's hydrocarbon potential has been in the Kotaneelee field in Southeast Yukon and in the Eagle Plain Basin in Northern Yukon. EFL Overseas Inc. (EFLO) has a 54 per cent working interest in the Kotaneelee field and has indicated plans to develop the existing conventional gas resource which they estimate may have five to 10 production years remaining.[14] The Yukon Environmental and Socio-economic Assessment Board (YESAB) process concluded with the Yukon government issuing a decision document in February 2015 which provided direction that EFLO's planned work over of the existing wells could proceed.

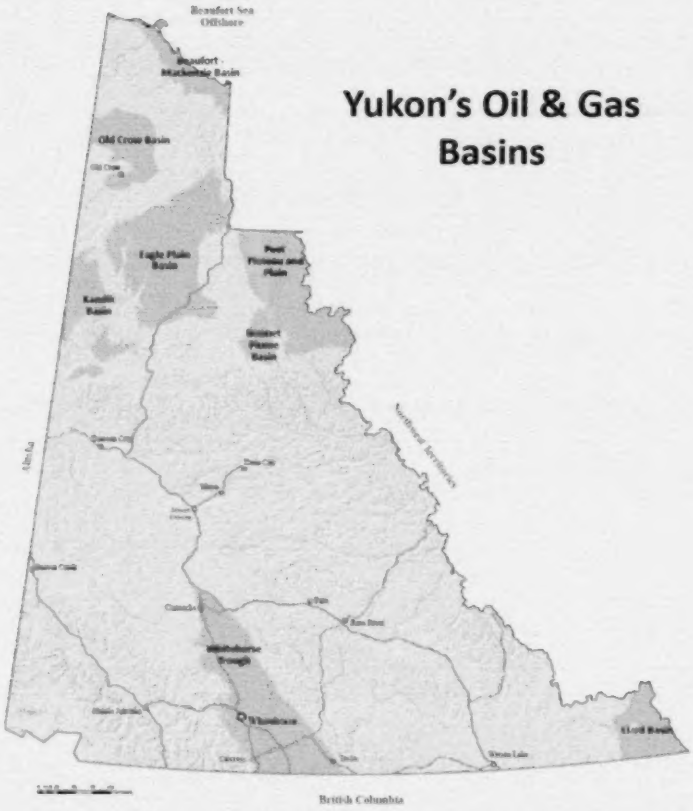
Interest continues in possible oil and gas development in the Eagle Plain Basin in North Yukon. Supported by investment from China National Offshore Oil Corporation (CNOOC), Northern Cross (Yukon) Limited estimates spending of more than $100 million since their current exploration program began in late 2011.[15] Based on the project proposal submitted to YESAB in 2014, Northern Cross proposes to drill and conduct extended flow tests on up to 20 exploratory oil and gas wells in the area that it completed a 3D seismic program in early 2014. Wells are planned to be drilled and tested from December to mid-April and from May to October, over a period of eight years.[16] These wells would be in addition to the four wells drilled in 2012 and 2013. Currently Northern Cross' Eagle Plains Multi-well Exploration Program remains under review by YESAB.

Yukon Energy Corporation's (YEC) new liquefied natural gas (LNG) facility in Whitehorse was deemed operational in mid-July 2015. This facility includes LNG burning power plants and fuel

storage and will be able to provide back-up power, replacing two diesel generators near the Whitehorse Rapids Dam. Plans are to source natural gas from southern Canada.

Development of Yukon's natural gas resources depends very much on natural gas prices. While fluctuating from year-to-year, natural gas prices have been below the highs recorded in the last decade when annual average prices approached US$9.00 MMBTU[17]. Following an annual increase of almost 18 per cent in 2014, natural gas prices are down significantly in 2015; averaging US$2.79 MMBTU to October 5th, 39 per cent lower than the average for the same period of 2014.[18] A number of forecasters are calling for natural gas prices to increase in 2016, but with prices remaining below 2013 and 2014 prices, and well below the highs of the last decade.

The weakness in oil prices from late 2014 has carried over into 2015. Year-to-date (to October 9, 2015) oil prices have averaged just under US$51 per barrel, down from an average of US$99 per barrel in the same period in 2014.[19] Increased supply and weaker demand have contributed to weaker oil prices, and while prices are forecast to be stronger in 2016, oil prices are expected to remain well below recent highs.



Future development of Yukon's hydrocarbon resources will also be shaped in part by decisions related to the production process of hydraulic fracturing. In an effort to engage with Yukoners and generate discussion on what has become a high profile, public topic, the Select Committee Regarding the Risks and Benefits of Hydraulic Fracturing was formed.

The final report of the Select Committee was released on January 19, 2015 and included 21 recommendations. The recommendations focus on the need for continued public dialogue, continued First Nation engagement, detailed assessment of the economic, human health and social impacts, more baseline data and scientific research around water, greenhouse gases, air emissions, wildlife and induced seismicity and assurance that regulatory processes will protect the safety of people and the environment.

The Government of Yukon has stated that it agrees with all 21 recommendations, and that addressing the recommendations would serve to provide a better understanding of potential risks and benefits associated with the development of shale oil and gas resources, and in

particular, the use of hydraulic fracturing. Work to address the various recommendations of the report is ongoing.

Outlook for Oil & Gas

- While there is interest in Yukon oil and gas resources, the outlook for development remains uncertain.
- Future development will depend on a number of factors including the performance of oil and natural gas prices and decisions made related to the use of hydraulic fracturing in the territory.

TOURISM

Tourism related activities contribute to the diversity of Yukon's economy and support employment across a wide variety of local goods and services providers. Retailers, grocery stores, accommodations providers, restaurants, as well as providers of sports and recreational activities and providers of arts and culture all benefit annually from visitors to the territory.

The 2013 *Yukon Business Survey* notes that Yukon businesses attributed almost $250 million of their gross revenue in 2012 to tourism and that based on these revenues the total GDP attributable to tourism was estimated at about $114 million, accounting for over four per cent of Yukon's total GDP in 2012.[20] In terms of employment Statistics Canada's *Provincial-Territorial Human Resource Module of the Tourism Satellite Account, 2012* notes that the percentage of jobs[21] in Yukon in 2012 is estimated at 11.3 per cent, placing Yukon only behind British Columbia (12.2 per cent) and the Northwest Territories (12.1 per cent).[22] Tourism activities are important to Yukon's economy, often serving as a stabilizing force for Yukon's economy during times when the mining sector may be struggling.

Estimates from Yukon's Visitor Tracking Program[23] indicate that approximately 443,300 people visited Yukon in 2014, down 2.2 per cent from the record high 453,200 in 2013. The decline occurred over the peak summer months (May to September), which were down 11,000 people, or 2.9 per cent, compared to the previous year. Offsetting some of this decrease was an increase in the shoulder season (January to April, and October to December), which was up approximately 1,100 people, or 1.4 per cent over 2013.[24]

In terms of international border crossings, since posting a 20-year low in 2009 crossings have been well over 300,000 annually, averaging over 330,000 for the period 2010 to 2014. International border crossings are often used as a measure of the performance of Yukon's tourism sector.

After growing in consecutive years, and recording a record 350,095 in 2013, Yukon border crossings fell 2.4 per cent in 2014 to 341,707.

Border crossings from the U.S., Yukon's largest tourism market, were down by 3.8 per cent in 2014. While down, U.S resident crossings totalled 222,084, accounting for 65.0 per cent of all crossings in 2014. Canadian (excluding Yukon resident) border crossings were also down in 2014, falling 0.8 per cent to 33,132. Gains in border crossings by international visitors

countered some of the decline in 2014, with growth of 9.1 per cent to 43,865. Notable gains were reported in visitation from Asia/Pacific and Europe with growth of 9.8 per cent and 8.7 per cent, respectively.

By mode of transportation, border crossings were down for both private vehicle and motor-coach. The largest component of border crossings, people in private vehicles, saw 190,558 crossings in 2014, a 4.9 per cent decline from 200,434 in 2013. Border crossings by motor-coach also reported a substantial decline in 2014 with crossings of 136,762 down 5.7 per cent from 145,076 in 2013.

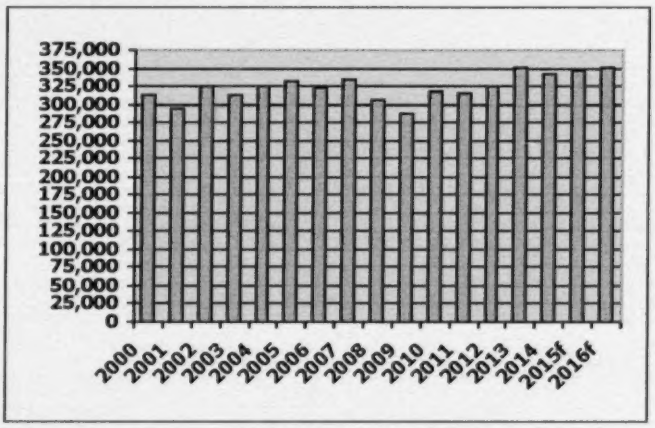


Figure 11 – Border Crossings (Includes International Air Travel)
Source: Department of Economic Development; Department of Tourism & Culture

A significant increase was reported in border crossings by air, with 14,387 people, representing an almost 214 per cent increase over the 4,585 crossings noted in 2013. The substantial increase in the air border crossings is largely the result of the move by Holland America to fly passengers from Fairbanks, Alaska to Dawson City rather than the previous practice of using motor-coach travel. Of the increase in air crossings, over 91 per cent were in Dawson City.

The persistence of a weaker Canadian dollar and lower oil prices are also resulting in favorable conditions for visitation in 2015. The Department of Tourism & Culture has indicated that anecdotal information from local tourism operators indicates that 2015 has been a good year for tourism. Year-to-date (January to July), total visitation is up 1.4 per cent to 258,500. Border crossings are up 1.5 per cent to over 202,000, with large gains being seen in crossings by Americans, up 4.2 per cent year-to-date, and by overseas visitors, up 10.7 per cent. The growth in border crossings by Americans and overseas visitors is tempered by a decline in border crossings by Canadians (down 5.8 per cent) and Yukoners (down 15.2 per cent). This is likely attributable to the weaker Canadian dollar, which is discouraging Canadians from travelling to the United States. Further, 91,309 passengers have arrived at Erik Nielsen Whitehorse International Airport year-to-date, an increase of 5.5 per cent over 2014, and a new record-high.

Current expectations are for a return to growth in 2015, with border crossings growing 1.5 per cent to 347,000. Similar growth is expected in 2016, with border crossings expected to reach 352,000.

Outlook for Tourism

- After falling in 2014, current expectations are for border crossings to increase by 1.5 per cent in 2015.
- Further growth in 2016 would take the number of visitors to a record 352,000.

CONSTRUCTION

After declining in 2012 and 2013, the value of building permits increased by 65 per cent to $130.5 million in 2014.

Residential permits totalled $46.6 million, up 35 per cent, while non-residential permits increased over 90 per cent to $83.8 million. All areas of non-residential building permits increased in 2014, with the main driver of growth being an increase in the value of institutional building permits, which more than doubled to over $46 million. Much of the increase in institutional permits was related to activities associated with the F.H. Collins School replacement.

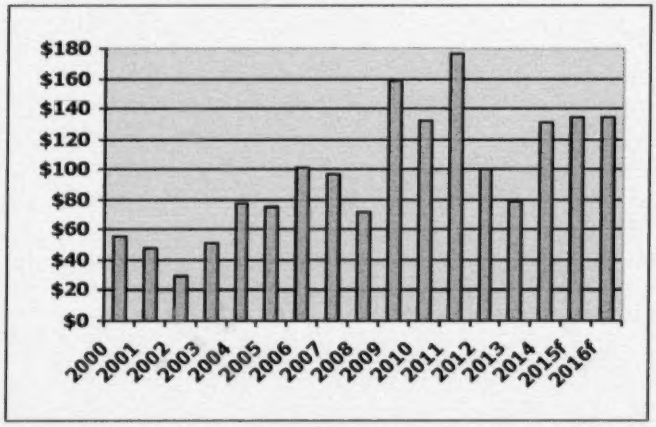


Figure 12 – Value of Yukon Building Permits ($ millions)
Source: Department of Economic Development; Yukon Bureau of Statistics

The 2015-2016 territorial budget was the largest in Yukon's history and included the largest ever capital budget. Spending identified in the budget will help support near-term construction activities. Estimates compiled by the Department of Highways & Public Works have total capital spending[25] at over $300 million in 2015-16, with a variety of projects anticipated to contribute to construction activities. Among the largest contributors to spending in 2015-16 are projects such as:

- More than $90 million associated with Health and Social Services including construction of a new continuing care facility in Whitehorse, replacement of the McDonald Lodge continuing care facility in Dawson, construction of a new drug and alcohol detox centre to replace the Sarah Steele building, the replacement of the Whitehorse Salvation Army building, the St. Elias group home and work at the Whitehorse hospital related to the new Magnetic Resonance Imaging (MRI) scanner and expansion of the emergency department;
- More than $85 million related to Community Operations and Infrastructure including the City of Whitehorse's building consolidation project, continued construction of a recreation centre in Dawson City,

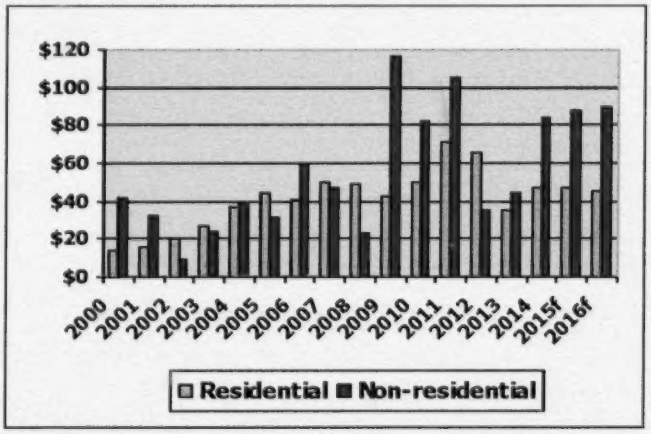


Figure 13 – Value of Yukon Building Permits – Residential vs. Non-residential ($ millions)
Source: Department of Economic Development; Yukon Bureau of Statistics

replacement of the Carcross Fire Hall and water and sewer upgrades in various communities;

- More than $55 million related to Highway Maintenance and Upgrades around the territory;
- More than $20 million related to Education with much of the spending associated with the replacement of the F.H. Collins School in Whitehorse; and
- Almost $20 million related to Housing, including social housing, and residential land development including development of seniors' housing in Whitehorse and continued development of the Whistlebend sub-division.

Looking beyond this year there are a number of projects and activities that have been identified which could impact Yukon's economy, with over $200 million in total project spending currently identified for Yukon in 2016-2017. Prominent projects in this spending figure include continued construction of the new continuing care facility in Whitehorse, further work related to phases 3, 4 and 5 of the Whistlebend sub-division, work related to the City of Whitehorse's building consolidation project and the Whitehorse Corridor redevelopment. While not included in the 2016-17 cost estimate the recently announced planning initiative between the Department of Energy, Mines & Resources and the City of Whitehorse to examine possible development of land located at Fifth Avenue and Rogers Street in Whitehorse could contribute to future construction spending. The planning process is slated to be completed by December 2015 with a mix of market and affordable housing and commercial development envisioned for the property.

Because of questions regarding timing of permits, and what future construction activities may require permits, forecasting the value of building permits is difficult. As well, the performance of mineral prices and the subsequent impact on the local mining sector continue to be key determinants of the nature and level of construction activity in Yukon. Given the current uncertainty in the global mining sector and what it could mean for local mining activities, the risk to the building permit outlook is elevated. In terms of the value of building permits, modest gains in the value of residential and non-residential building permits are anticipated for 2015 with total permit value in 2016 remaining at the 2015 level.

Outlook for Construction

- The value of building permits is expected to grow to about $135 million in 2015 and remain at that level in 2016.
    - Construction activities in the realm of health and social services are expected to drive the value of institutional building permits and overall building permits in the near-term.

RETAIL TRADE

Benefitting from a period of economic growth, growing household incomes and gains in population and employment, retail sales for Yukon have generally performed well in recent years.

Retail sales of $660.9 million in 2014 were up from $652.3 million in 2013. While increasing in 2014, retail sales were below the recent annual record of almost $670 million recorded in 2012.

Food and Beverage Stores, the largest segment of the Yukon retail sales at about 30 per cent of total sales, grew 1.6 per cent to $198.0 million in 2014. The value of sales related to Gasoline stations, the second largest component of retail sales, grew slightly (0.9 per cent) to $107.4 million in 2014 as lower gasoline prices dampened sales.

Sales from Health and Personal Care Stores were also up in 2014, with the estimated value of $32.0 million up 3.2 per cent from $31.1 million in 2013.

Countering some of the increase was lower sales from Furniture and Home Furnishings Stores, reported as being down 13.0 per cent to $13.5 million.

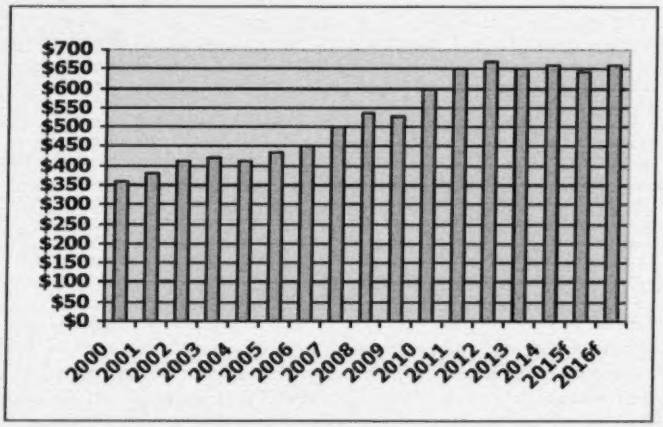


Figure 14 – Value of Retail Sales ($ millions)
Source: Department of Economic Development; Yukon Bureau of Statistics

Due to issues around confidentiality, retail sales data for other retail classifications are suppressed.[26] Total sales from these suppressed classifications totaled almost $310 million.

In the first seven months of 2015, the value of retail sales increased slightly to $378.6 million, up from $377.6 million in the same period of 2014. Overall in 2015, weaker economic performance is expected to negatively impact retail sales with the value of retail sales forecast to fall to $644 million. Retail sales are anticipated to grow in 2016, but at $662 million the value of retail sales is only expected to return to the level of sales that was achieved in 2014 and falls below the value recorded in 2012.

Outlook for Retail Trade

- The value of retail sales are expected to fall in 2015, declining 2.6 per cent to $644 million.
- Retail sales are forecast to grow to just over $660 million in 2016.
- A weaker economy and continued weakness in the mining sector increases the uncertainty for the near-term performance of retail sales.

KEY ECONOMIC INDICATORS

Indicator	*2014*	*2015f*	*2016f*
Population, Prices, Rates			
Population (June)	37,251	37,475	37,850
Population Growth Rate	1.7%	0.6%	1.0%
CPI Growth Rate^	1.3%	-0.6%	2.2%
Overnight Rate	1.00%	0.65%	0.50%
Canada/U.S. Exchange Rate	$0.906	$0.783	$0.769
Employment†			
Labour Force	20,700	20,800	20,900
Employment	19,800	19,400	19,300
Unemployed	900	1,400	1,600
Unemployment Rate	4.3%	6.7%	7.5%
Economic Output			
Real GDP By Industry (billions of chained 2007 $)	$2.183 (p)	$2.05	$2.12
Real GDP Growth Rate	-1.2%	-6.1%	3.5%
Commodity Prices~			
Gold ($US/oz)	$1,266	$1,170	$1,180
Silver ($US/oz)	$19.08	$16.00	$16.20
Zinc ($US/lb)	$0.98	$0.93	$1.02
Copper ($US/lb)	$3.11	$2.58	$2.70
Oil - WTI ($US/bbl)	$93.26	$49.00	$57.00
Natural Gas – Henry Hub ($US/MMBTU)	$4.39	$3.00	$3.65
Mining			
Value of Mineral Production	$428.8 million (p)	$200 million	$335 million
Exploration Expenditures	$107.1 million (r)	$126.4 million (p)	--
Development Expenditures	$50 million (e)	$40 million (e)	--
Construction			
Permitted Building Construction	$130.5 million	$135 million	$135 million
Trade			
Value of Retail Sales	$660.9 million	$644 million	$662 million
Tourism			
Non-resident Border Crossings+	341,707	347,000	352,000

f = forecast, e = estimate, p = preliminary, r = revised, -- = not available
^ CPI increase for Whitehorse only
† annual averages – totals may not total due to rounding
~ annual averages
+ as reported by the Department of Tourism & Culture

DATA SOURCES FOR KEY ECONOMIC INDICATORS TABLE

Indicator	*Source*
Population	Yukon Bureau of Statistics, Yukon Population Estimates, Yukon Department of Economic Development
Inflation (Consumer Price Index)	Statistics Canada, Consumer Price Index, Yukon Department of Economic Development
Overnight Rate	Bank of Canada (average daily rate), BMO Capital Markets
Canada/U.S. Exchange Rate	BMO Capital Markets
Labour Force Indicators	Statistics Canada, Yukon Labour Force Survey, Yukon Department of Economic Development
Economic Output (Real GDP)	Statistics Canada, Provincial Economic Accounts, Yukon Department of Economic Development
Commodity Prices	BMO Capital Markets
Value of Mineral Production	Natural Resources Canada Minerals and Mining Statistics Division, Yukon Department of Economic Development
Mineral Exploration Expenditures	Natural Resources Canada Minerals and Mining Statistics Division, Yukon Department of Economic Development
Mine Development Expenditures	Yukon Department of Energy, Mines & Resources, Yukon Department of Economic Development
Tourism Visitation	Yukon Department of Tourism & Culture, Yukon Department of Economic Development
Permitted Building Construction	Yukon Bureau of Statistics, Yukon Department of Economic Development
Retail Trade	Statistics Canada, Yukon Department of Economic Development

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[9] Bank of Canada maintains overnight rate at ½ per cent. (September 9, 2015).
http://www.bankofcanada.ca/2015/09/fad-press-release-2015-09-09/
[10] Accurate population estimates are not available for the time of the Klondike Gold Rush.
[11] Consumer Price Index data is only available in Yukon for Whitehorse.
[12] Exploration and deposit appraisal expenditures include on-mine-site and off-mine-site activities; field work, overhead costs, engineering, economic and pre- or production feasibility studies, environment, and land access costs. Expenditures also include only the search for and appraisal of deposits and do not include work for extensions for known reserves.
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[23] The Yukon Visitor Tracking Program is a volumetric model that estimates the number of people that visit Yukon on a monthly basis. The model includes visitors entering Yukon via highway, train and air, and excludes Yukon residents.
[24] Yukon Tourism Indicators Year-End Report 2014. Department of Tourism and Culture.
http://www.tc.gov.yk.ca/pdf/2014_TourismIndicators_YearEndReport.pdf
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[26] Data for 2014 was suppressed for Building Material and Garden Equipment; Motor Vehicle and Parts Dealers; Electronics and Appliance Stores; Sporting Goods; Hobby Book and Music Stores; General Merchandise Stores; and Miscellaneous Store Retailers.